105th Congress, 1st Session: No. 16 June 23, 1997

INFORMED BUDGETEER

RECONCILIATION UPDATE

- The FY 1998 Congressional Budget Resolution, which implemented the Bipartisan Balanced Budget Agreement, set out instructions for eight Senate committees to report legislation to the Senate Budget Committee that would total $137.2 billion in spending reduction over the next five years.

- All eight committees have reported to the Budget Committee, preliminary scoring indicates net savings over five years to be $132.6 billion, $4.6 billion under the instructions. Amendments will be offered on the floor to bring committees into compliance and thereby meet total instructions.

- Additionally, the Finance Committee has completed mark-up of the revenue reconciliation bill and both reconciliation bills are scheduled to be considered on the Senate floor next week.

Senate Reconciliation Savings
($ in Billions, Preliminary staff scoring.)

Net deficit reduction:	Instruction	5-year total	Difference
Agriculture	1.500	1.490	-0.010
Banking	-1.590	-2.055	-0.465
Commerce	-26.496	-15.896	10.600
Energy	-0.013	-0.013	0.000
Finance (Spending)	-100.646	-106.080	-5.434
Government Affairs	-5.467	-5.527	-0.060
Labor	-1.792	-1.792	--
Veterans' Affairs	-2.733	-2.733	--
TOTAL	-137.237	-132.606	4.631

Senate Banking, Housing & Urban Affairs:

- On June 18, by a vote of 18-0, the Banking Committee met its reconciliation instructions and reported out a bill with savings of $2 billion over five years.

- The Committee's bill, in accordance with the Agreement, assumed continuation of current law policy to reduce the amount of forbearance extended by the Federal Housing Administration. The continuation of current law restrictions on the amount of automatic cost increases provided to Section 8 owners was also assumed.

- Additionally, the Banking Committee restructured project-based Section 8 contracts that are over subsidized through a "mark to market" program that would reduce discretionary spending on Section 8 subsidies and reduce future losses anticipated in the FHA multifamily insurance program.

- Finally the Committee established a minimum rent of up to $25 per month and eliminated preference rules for project-based Section 8 assistance, allowing tenants who can pay more rent to be eligible for certain housing units.

Senate Commerce, Science & Transportation:

- The Senate Committee on Commerce, Science, and Transportation, by a vote of 16-5, on June 17, reported its reconciliation recommendations, which fell $10.6 billion short of the five-year savings target of $26.5 billion assumed in the budget resolution and the budget agreement.

- The Committee adopted the extension of vessel tonnage fees as assumed in the resolution, for $0.2 billion over 1998-2002. The shortfall occurred in the area of spectrum auctions, which accounted for the balance of the instruction.

- While the Committee started with most of the key components of the policies assumed in the resolution, amendments added to the bill to limit the FCC's auction authority reduced the savings by $7.9 billion. The Committee did not address another $2.7 billion of savings assumed in the resolution.

Senate Finance Committee (Spending):

- By a vote of 20-0, the Senate Finance Committee reported out the spending provisions of it's reconciliation instructions. The estimates of the Chairman's mark indicate that the bill would reduce spending by $106 billion over five years.

- <u>MEDICARE PROVISIONS:</u> The Committee provisions include a shift of the home health shift spending to the Part B trust fund, as assumed in the Agreement, and would help to keep the HI trust fund solvent until 2007. The shift is phased in over a seven year period, with $30.7 billion shifted in the first five years. Additionally, the Committee approved a $5 co pay per visit for home health services financed by the part B trust fund, saving $4.7 billion over five years.

- The Committee approved extensive structural reform provisions, called Medicare Choice, intended to give beneficiaries more choices among private health plan options, similar to the structure provided through the FEHB selection process. A Medical Savings Account demonstration, limited to 5 years and 100,000 beneficiaries was also approved.

- The Medicare retirement eligibility age is increased from 65 to 67 between 2003 and 2027, conforming with the scheduled increase in the Social Security retirement age.

- <u>MEDICAID & CHILDREN"S HEALTH PROVISIONS:</u> The DSH allotments to the states would be lowered by freezing "very low DSH" states at their 1995 spending levels and phasing in reductions for "high and low DSH" states by phasing out from their 1995 allotments amounts claimed for mental health services. High and low DSH states would also get percentage reductions in their 1995 allotment amounts. These two provisions would save about $12 billion over five years.

- The Committee provisions would repeal the Boren Amendment, saving $1.2 billion over five years, and allow states to use Medicaid payment rates as benchmarks for determining payment in full for purposes of Medicare beneficiaries who are entitled to Medicaid coverage of Medicare cost sharing, savings $5 billion over five years.

- Although the Agreement assumed $1.5 billion in spending to provide assistance to low income Medicare beneficiaries, the Committee did not provide any new funding.

- States are given the choice of taking additional children's health funding in the form of an enhanced Medicaid match for children's health or a capped block grant.

- For Puerto Rico and other territories, the Committee provisions would increase the funds and for DC the Committee would increase the matching rate to 60 %.

- <u>WELFARE PROVISIONS:</u> The Committee generally followed the Agreement by creating a new $3 billion welfare to work program, restoring benefits to certain noncitizens, increasing the unemployment insurance trust fund ceiling, instituting new fraud and abuse provisions for the EITC and increasing the fee for federal administration of state funded SSI supplemental benefits.

Senate Government Affairs Committee:

- The Government Affairs Committee, by voice vote on June 17, exceeded its $5.467 billion reconciliation instructions by $60 million.

- The Committee met its savings target by increasing federal agency contributions (except the Postal Service and D.C.) to the Civil Service Retirement System (CSRS) by 1.51 % effective October 1, 1977 through September 30, 2002. Since the CBO assumptions were different than OMB's, the committee raised the agency contributions in the year 2002 to 1.6 % rather than the 1.51 % increase in the preceding four years.

- It increased all federal employee contributions to the CSRS and Federal Employees Retirement System (FERS) by .5 % beginning in 1999. This increase will be on a phased-in basis as follows: .25 % in January 1999; .15 % in January 2000; and .1 % in January 200l.

- The Committee repealed the payment to the Postal Service to finance workers compensation benefits for employees injured before 1971. The Postal Service will not be responsible for these payments.

- It included a provision to replace the "phantom six formula" for FEHB by setting the government's contribution at 72% of the weighted average of all the plans. Federal employees' contributions to their health benefit plan will thus remain approximately the same as their current contributions.

- The Comittee included a provision under asset sales for the sale of Governor's Island, NY and the air space above the tracks at Union Station in the year 2002.

RECONCILIATION BILL #2- REVENUES

- The Finance Committee reported the tax cut reconciliation bill late June 19 on an 18-2 vote. The Finance bill:

  provides a $500 per child tax credit, allowing one-half of EIC in stacking with the child credit;

  cuts the capital gains tax to 20 % (10 % for taxpayers in the 15 % bracket), section 1250 recapture at 24 %;

  provides $32.2 billion in education tax relief (over five years), including a $1,500 HOPE tax credit, student loan interest deduction, and permanent extension of the exclusion for employer-provided educational assistance;

  gradually raises the income limits on deductible IRAs;

  increases the estate and gift tax unified credit to $1 million by 2007;

  raises the tobacco excise tax by an equivalent of 20 cents per pack of cigarettes;

  extends airport and airway trust fund taxes, adds a 10 % tax on the domestic segment of international flights, increases the departure tax to $8 and adds an arrival tax of $8; and,

  adds an additional $8 billion of spending for children's health initiatives.

THE APPROPRIATE APPROPRIATIONS AGREEMENT

- In the Bipartisan Budget Agreement between the President, the leadership and budget negotiators agreed that 13 programs should be defined as "protected domestic discretionary priorities" and that five overall budget functions should also be "protected". (See the June 10, *Bulletin.*) But what do these assumptions mean to the appropriations process on the whole?

- First, the Agreement does not specify FY 1998 budget allocations for appropriations subcommittees (602(b) allocations). The Administration has suggested "proposed" allocations by subcommittee. However, it is possible for the Appropriations Committee to make different allocations and still be consistent with the Agreement.
- The Agreement does envision that the 13 priority domestic programs will be funded at the President's requested level ($32.5 billion overall).

- The five "protected" budget functions for which funding is assumed do not coincide with appropriations subcommittees. In fact, historically these five categories have been spread across 10 subcommittees. How the Appropriations Committee chooses to meet the assumed funding levels for these broad areas of the Agreement is left entirely to the Committee.

- Under the Agreement aggregate discretionary spending levels <u>are specified and enforced</u> through the FY 1998 Concurrent Budget Resolution. Additionally, firewalls between defense and nondefense discretionary spending are established for the next two years.

- Now, with all that cleared up, Budgeteers and Appropriators should take a look at the following table which compares House and Senate 602(b) allocations.

COMPARISON OF 602 (b) ALLOCATIONS
($ in billions)

		House	Senate	Difference
Agriculture	BA	13.7	13.7	0.1
	OT	14.0	14.2	0.2
CJS- Defense	BA	0.3	0.3	0.0
	OT	0.3	0.3	0.0
Nondefense	BA	25.7	25.4	0.3
	OT	25.4	25.5	0.1
Defense -	BA	248.1	246.6	1.5
	OT	244.5	244.3	0.3
Nondefense	BA	0.0	--	0.0
	OT	0.0	0.0	0.0
D.C.	BA	0.8	0.8	--
	OT	0.5	0.5	--
Energy- Defense	BA	11.0	12.1	1.1
	OT	11.6	12.0	0.3
Nondefense	BA	9.0	9.0	0.1
	OT	8.9	8.9	--
Foreign Operations	BA	12.5	13.2	0.7
	OT	13.1	13.1	0.0
Interior	BA	13.7	13.7	--
	OT	13.7	13.8	0.1
Labor- HHS	BA	79.4	79.2	0.2
	OT	75.7	75.8	0.1
Leg Branch	BA	2.2	2.3	0.1
	OT	2.2	2.3	0.1
Military Con.- Defense	BA	9.2	9.2	--
	OT	10.0	10.0	0.0
Transportation- Defense	BA	0.3	--	0.3
	OT	0.3	0.1	0.2
Nondefense	BA	12.2	12.1	0.2
	OT	36.8	36.9	0.1
Treasury	BA	12.4	12.5	0.1
	OT	12.2	12.3	0.1
VA - HUD- Defense	BA	0.1	0.1	0.0
	OT	0.1	0.1	0.0
Nondefense	BA	70.0	69.3	0.8
	OT	80.5	79.6	0.9
Unallocated Reserve	BA	0.7	1.7	1.1
	OT	--	0.2	0.2
Crime (total 3 subcom.)	BA	5.5	5.5	--
	OT	3.6	3.6	--
TOTAL	BA	526.9	526.9	0.0
	OT	553.3	553.3	0.0

CALENDAR

<u>June 23- 27:</u> FY 1998 Senate Reconciliation Bills will be considered on the Senate Floor.

<u>June 28- July 7:</u> Senate will adjourn for 4th of July recess.